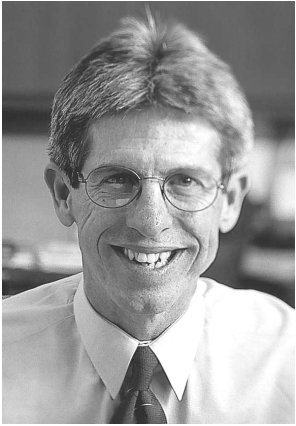


PUBLIC EMPLOYEES' RETIREMENT FUND INDIANA

MEMBER UPDATE APRIL 2003

MESSAGE FROM THE EXECUTIVE DIRECTOR

CRAIG HARTZER



We guarantee all members a high level of access to our services and accountability for delivering results.

It is a tremendous honor to have been named the new executive director of PERF. If you would like to know a little more about me, please see the short biography on the PERF website at www.perf.in.gov. My first eight weeks here have been very challenging and educational. I see many opportunities to improve our service to the members of the Fund, such as:

- More timely benefits processing;
- A world-class customer service center;
- Improved publications, website and forms; and,
- More effective outreach to members and employers.

As you know, the last few months have been very difficult for PERF. Two former employees are in jail. One allegedly lied about his identity to get a job at PERF. The other has been indicted for stealing money from members' annuity savings accounts. Those members identified as victims of this theft have been contacted by PERF and law enforcement. We are working to quickly restore the stolen money to their accounts. In addition, the national recession has pummeled Indiana's economy and reduced the value of PERF's assets by more than \$1.5 billion over the last 24 months.

Many of our members are frustrated that they learned about these problems in the newspapers rather than hearing it directly from us. In order to fully cooperate with local, state and federal law enforcement authorities conducting the criminal investigation, we have been advised not to do or say anything that could jeopardize the prosecution of these former employees. Your patience and understanding with the challenge of our need to cooperate with law enforcement officials and to communicate with you, our members, are greatly appreciated.

In addition to the criminal investigation, we have taken steps to help prevent these crimes from happening again. All current employees have gone through a rigorous background check. Future employees will do the same as a condition of employment. Our internal audit structure is expanding to enhance security and ensure that necessary checks and balances are in place to detect and prevent fraud. The call center provides members a way to report any concern they have regarding the security of their account. Each inquiry is forwarded and reviewed individually by the internal auditor and assessed for appropriate corrective action.

You may have noticed that we now print only the last four digits of your Social Security Number on quarterly statements and benefit checks. We also are looking seriously at creating unique membership numbers that would become the primary identifier for everyone, rather than the SSN. These actions represent only some of our first steps to protect your records. As you know, identity theft is a crime that continues to grow in our nation and in our state. We *all* must do more in protecting ourselves from this growing problem.

We guarantee all members a high level of access to our services and accountability for delivering results. I look forward to making significant improvements in several areas very quickly. Please take a moment to read more about a few of the recent developments at PERF.

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2003 LEGISLATIVE UPDATE

The 2003 General Assembly is now beyond the halfway point, and there are even rumblings of an early adjournment – *almost unheard of in a budget year*. However, there is still some work and many discussions to be had before our legislators make their way back home.

As you might imagine, there are several PERF-related bills being discussed in halls of the Statehouse. Here are a few of the more notable bills related to the fund:

House Bill 1523 – *Investment Selections*

Directs the PERF Board to conduct a pilot program concerning increasing the frequency of investment selections and interest crediting. PERF would then report the results to the Pension Management Oversight Commission and produce a schedule to implement the program for all funds administered by PERF.

House Bill 1573 – *PERF COLA, Minimum Benefit*

Provides for a cost-of-living adjustment for members of PERF (or their survivors or beneficiaries) for 2004 and 2005. Also provides a minimum benefit for a retired member with at least 10 years of creditable service, excluding members whose only service was as an elected official.

Senate Bill 141 – *PERF Direct Deposit Notices*

Requires PERF to adopt a policy promoting direct deposit as the preferred method to receive monthly benefits. Also requires PERF to provide members using direct deposit with written notice before a change to the benefit amount, or once every 12 months if the benefit amount does not change.

To see the action taken by the legislature on these and any other legislation under consideration, please visit the Indiana General Assembly on the Access Indiana website at the following location, <http://www.in.gov/legislative>.

CHANGE TO GUARANTEED FUND INTEREST-CREDITING RATE

At its meeting March 14, the PERF Board of Trustees set the Guaranteed Fund interest-crediting rate so that it will result in an annual *yield* of 7.25 percent for the year beginning July 1, 2003, and ending June 30, 2004. This is a decrease from the current annual *rate* of 7.75 percent.

When expressed as a rate of return on an investment, a yield is usually expressed as an annual percentage rate. You may be familiar with a yield as a measure of the income generated by a bond. In terms of the Guaranteed Fund, it means the portion of your account invested in the Guaranteed Fund at the beginning of the year will accrue interest of 7.25 percent by the end of the year.

Let's look at a specific example to help understand:

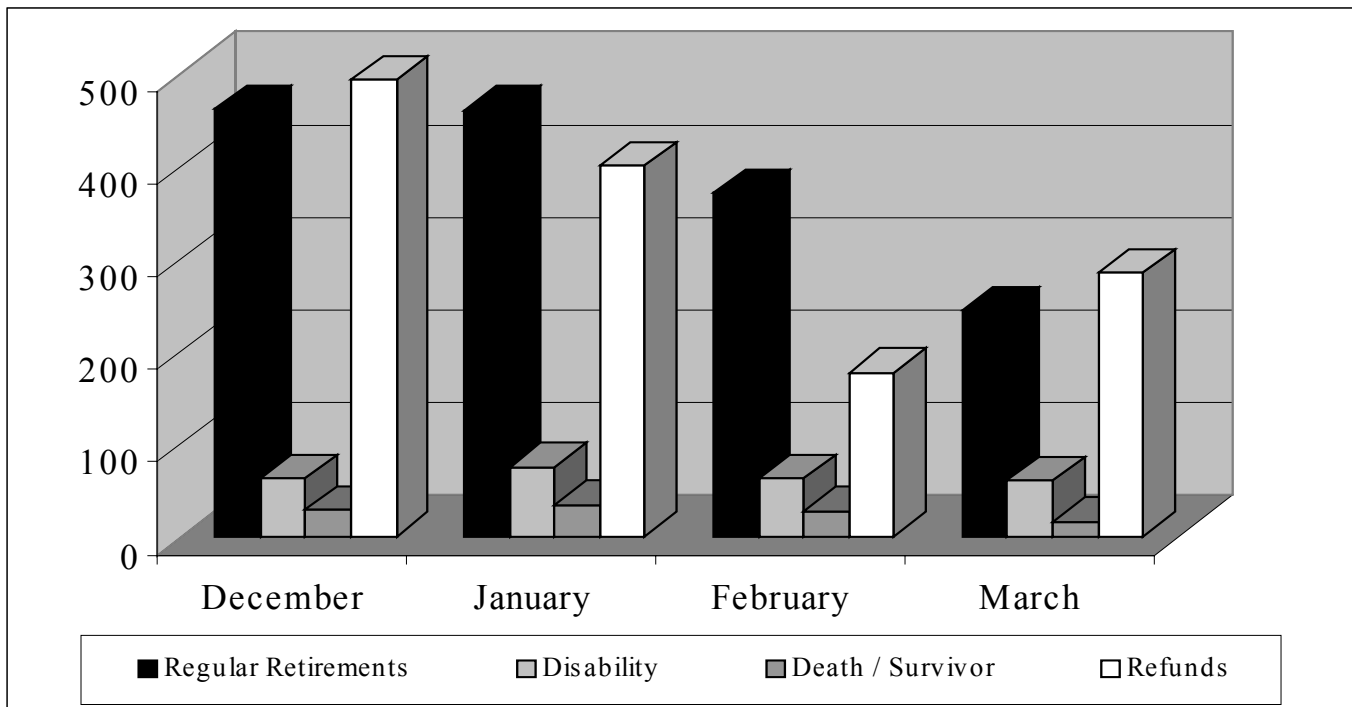
Assume you have \$1,000 invested in the Guaranteed Fund on July 1, 2003. At the end of the fiscal year – June 30, 2004 – the value of that \$1,000 will be equal to \$1,072.50, or \$1,000 multiplied by 1.0725. The quarterly interest rate that will *yield* 7.25 percent annually is 1.765 percent. Here is how the account would accrue interest on a quarterly basis throughout the year:

1 st Quarter	=	\$1,000.00	X	1.01765	=	\$1,017.65
2 nd Quarter	=	\$1,017.65	X	1.01765	=	\$1,035.61
3 rd Quarter	=	\$1,035.61	X	1.01765	=	\$1,053.89
4 th Quarter	=	\$1,053.89	X	1.01765	=	\$1,072.50

Additionally, the quarterly Annuity Savings Account contributions that you or your employer make will also accrue interest at the 1.765 percent rate and will compound quarterly as they always have.

Update: BENEFITS BACKLOG

In our last issue of the *MEMBER UPDATE* we discussed PERF's backlog in processing retirement, disability and survivor benefits and refunds, as well as some of the steps we are taking to ensure the timely distribution of benefits to retirees. The graph below shows how we have made progress on the backlog in the last few months. There is still a great deal of work ahead of us, but we are pleased to report recent successes in this area.



KEEPING YOUR MAILING ADDRESS AND BENEFICIARY CURRENT

The importance of maintaining up to date information with the PERF – particularly your current mailing address and beneficiary cannot be stressed enough. We understand it is easy to forget PERF in the long list of people and organizations you must communicate with through major life events like moving or divorce. By not maintaining a current address with PERF, you run the risk of not receiving your quarterly statements and other vital information regarding your retirement benefits.

Even worse is the unfortunate circumstance where PERF is obliged to pay benefits to someone you previously named as a beneficiary, but for reasons like death or divorce, conflicts arise that could be avoided if your beneficiary is current. We appreciate your assistance in helping us avoid these unintended outcomes.

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Many brave men and women from Indiana are defending the freedoms of all Americans during this time of war. PERF would like to thank those members of the Fund who have made this unselfish sacrifice to serve in the U.S. Armed Forces. Our thoughts and prayers are with all service personnel and their families. As war places personal and financial hardships on military families, we wanted to take this opportunity to briefly discuss how the Fund credits military service.

The federal Uniformed Services Employment and Reemployment Rights Act of 1994 generally requires employers to reemploy and preserve certain job benefits for qualified employees who engage in military service. As far as PERF service credit is concerned, a member who leaves PERF-covered employment to enter military service and who is then reemployed pursuant to USERRA must be treated as not having incurred a break in service with his or her PERF employer on account of the military service. The member is entitled to PERF service for the time they were engaged in military service.

Members and employers may also make up the member and employer contributions that would have been made during the time of military service. Depending upon whether the employer "picks up" the member contribution or it is deducted from the member's paycheck, there are a variety of methods that the make up contributions are to be made.

IN REMEMBRANCE

The PERF family mourns the loss of Jerry Bates who passed away Feb. 1 at the age of 71.

Jerry served PERF and our members for more than 11 years as an information specialist and finally as procurement officer for the Fund. Jerry was graduated from Butler University in 1953 and served in the U.S. Army during the Korean Conflict.

He is survived by his brother, four children and 12 grandchildren. Everyone close to him knew his passion in life was the time he spent with his grandchildren. Jerry was a thoroughly engaging and entertaining colleague, and is greatly missed by us all.



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